

MACROECONOMIC IMPLICATIONS OF THE 2026 UNITED STATES–IRAN CONFLICT ON NIGERIA: THE DUAL ECONOMY EFFECT OF OIL PRICE SHOCKS

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Abstract

The escalation of the United States–Iran conflict on February 28, 2026, has significantly disrupted global energy markets, particularly through the Strait of Hormuz, driving crude oil prices above \$100 per barrel. This study examines the implications for Nigeria, an oil-exporting but refined petroleum-import-dependent economy. Elevated global oil prices have generated short-term fiscal gains by boosting government revenue, export earnings, and foreign reserves. However, structural challenges including limited domestic refining capacity, production bottlenecks, and reliance on imported fuel have transmitted these shocks into higher domestic petrol prices, cost-push inflation, exchange rate volatility, and reduced household purchasing power. The analysis highlights a dual economy effect: while oil export gains strengthen fiscal and external positions, socio-economic burdens intensify for households and businesses. To address these challenges, the study recommends implementing targeted stabilization measures, such as temporary social support and strengthened exchange rate management, expanding and modernizing domestic refining capacity to reduce reliance on imported petroleum products, and promoting economic and energy diversification by investing in non-oil sectors and alternative energy sources.

Keywords: Oil Prices; Inflation; Exchange Rate; Nigeria; Energy Security; Macroeconomic Volatility; Conflict; Economic Diversification

JEL Classification: F31, F41, Q43, E31, H50

Introduction

The recent escalation of tensions between the United States and Iran in early 2026 has generated a significant shock to global energy markets, particularly through disruptions in the Strait of Hormuz, which intensified following coordinated military strikes on February 28, 2026, has generated a significant shock to the global energy market (IEA, 2026; Reuters, 2026). The conflict has become particularly critical over the past two weeks due to disruptions in the Strait of Hormuz a strategic maritime route responsible for approximately 20% of global oil flows (U.S. Energy Information Administration, 2025; Reuters, 2026). As tensions escalated, shipping activities declined sharply, with vessels rerouted and security risks increasing, raising concerns over a potential closure of the corridor (The Guardian, 2026). Consequently, global oil supply has been significantly threatened, with estimated disruptions ranging between 11 and 14 million barrels per day (bpd), representing about 10–13% of global supply (Reuters, 2026). This supply shock has driven oil prices upward from pre-conflict levels of about \$70 per barrel to over \$100 per barrel, with Brent crude oil trading between \$110 and \$119 per barrel and West Texas Intermediate ranging between \$100 and \$105 per barrel, reflecting an increase of over 40–50% since the onset of the crisis (Reuters, 2026; Al Jazeera, 2026).

These developments have intensified global economic uncertainty, contributing to rising inflationary pressures, financial market volatility, and increased risks of economic slowdown (IMF, 2026; Reuters, 2026). Elevated energy prices have increased production and transportation costs worldwide, with projections suggesting that oil prices could rise further to \$130–\$150 per barrel under prolonged disruption scenarios (Reuters, 2026). For economies such as Nigeria, the transmission effects are multifaceted. While higher oil prices improve export earnings and government revenue through favourable terms of trade, they also introduce fiscal vulnerability due to price volatility (CBN, 2024; IMF, 2026). In addition, heightened global uncertainty may trigger capital outflows from emerging markets, exerting pressure on exchange rates and financial systems (IMF, 2026). At the same time, increased import costs particularly for refined petroleum products are likely to drive domestic inflation, raising the cost of living and weakening household purchasing power (World Bank, 2025). Thus, although the conflict presents short-term fiscal gains for oil-exporting countries, it simultaneously poses significant macroeconomic risks that require careful and proactive policy management.

Theoretical Framework

The Dutch Disease theory, developed by Corden and Neary (1982), explains how a sudden boom in natural resource revenues such as the oil price surge triggered by the 2026 United States–Iran conflict can generate short-term macroeconomic gains while simultaneously weakening the long-term productive structure of an economy. In this context, increased oil revenues in Nigeria lead to higher fiscal inflows and foreign exchange earnings; however,

they also trigger a reallocation of resources away from agriculture and manufacturing toward the oil sector, appreciate the real exchange rate, and increase import dependence. This results in a dual economy effect, where the oil sector expands while the non-oil sectors contract or stagnate, and thereby reinforcing structural imbalances. Consequently, the theory helps to explain how oil price shocks arising from geopolitical tensions can improve Nigeria's external position in the short run but undermine domestic productive capacity, employment generation, and economic diversification in the long run

Implications for Nigeria's Oil Sector

Nigeria's oil sector remains central to the economy despite declining GDP contribution, oil sector continues to exert a dominant influence on the country's economic structure and external performance, and even as it is direct contribution to gross domestic product (GDP) has declined in recent years. In the third quarter of 2024, the oil and gas sector accounted for about 5.57 percent of Nigeria's GDP, reflecting a reduction from historical levels when the sector's share was higher (Statista, 2025). At the same time, petroleum and related products comprised around 92 percent of the value of all Nigerian exports, underscoring the economy's heavy reliance on oil for foreign exchange and trade receipts (Statista, 2024; Statista, 2025). Nigeria's average crude oil production has hovered roughly between 1.4 and 1.6 million barrels per day, positioning it among the world's significant producers but also highlighting ongoing production constraints (FocusEconomics, 2025). Given these statistics, developments in global oil markets, such as price shocks and supply disruptions, have direct implications for government revenue, export earnings, external reserves, and macroeconomic stability, making effective policy responses vital for sustaining economic resilience.

Comparative Analysis

In the context of the Macroeconomic Implications of the 2026 United States–Iran Conflict on Nigeria: The Dual Economy Effect of Oil Price Shocks, Nigeria exhibits a significantly higher vulnerability to external oil price shocks compared to countries such as Norway and Angola due to deep structural weaknesses in its energy and productive sectors. Nigeria's limited refining capacity, low domestic value addition, and heavy dependence on imported refined petroleum products amplify the transmission of global oil price volatility into domestic inflation, exchange rate instability, and fiscal pressures. These weaknesses reinforce the dual economy effect, where gains from crude oil exports coexist with stagnation in the non-oil sectors of the economy. In contrast, Norway demonstrates strong resilience owing to its advanced energy infrastructure, diversified economy, and effective management of oil revenues through sovereign wealth mechanisms, which help stabilize macroeconomic fluctuations arising from external shocks (Norwegian Ministry of Finance, 2024). Similarly, Angola, despite being oil-dependent, has made relatively greater progress in downstream integration and domestic processing capacity, which enhances its ability to retain more value within the local economy and partially cushion external price volatility (ADB, 2023).

Consequently, while Norway and Angola are better positioned to absorb and mitigate the macroeconomic impacts of global oil shocks, Nigeria's structural constraints continue to deepen macroeconomic imbalances and reinforce the dual economy dynamics triggered by geopolitical disruptions such as the 2026 United States–Iran conflict.

Positive Effects

Revenue Windfall

Higher oil prices increase export earnings by raising the value of Nigeria's crude oil exports, which constitute about 92% of total export value and remain the dominant source of government revenue and foreign exchange earnings. Given this high dependence, even when production levels remain unchanged or decline, increases in global oil prices substantially elevate the monetary value of export receipts, thereby improving national income. For instance, Nigeria earned approximately \$31.54 billion from crude oil exports in 2025, despite lower production volumes compared to 2024, highlighting the sensitivity of export earnings to price movements in the global oil market (Central Bank of Nigeria, 2026). In this context, higher global oil prices such as those triggered by geopolitical tensions like the 2026 United States–Iran conflict generate a significant windfall effect, as each barrel of crude oil exported yields higher revenue, thereby strengthening Nigeria's external earnings position.

Improved Fiscal Position

Oil revenues strengthen government fiscal space by increasing public income through taxes, royalties, and crude oil export proceeds. When global oil prices rise, government receipts often exceed budgeted benchmarks, thereby improving fiscal balance and expanding the capacity of the state to finance infrastructure, social programs, and other public services without excessive reliance on borrowing. In Nigeria, where oil export revenue remains the dominant source of public finance, favorable terms of trade significantly enhance budgetary inflows and can contribute to reducing fiscal deficits. For example, periods of high oil prices particularly above \$100 per barrel translate into substantial increases in government earnings, thereby strengthening public financial management and expanding fiscal space for priority expenditures.

External Reserves Growth

Foreign exchange inflows support reserve accumulation by increasing the supply of foreign currency earned primarily from crude oil exports, which remain Nigeria's dominant source of external earnings. Strong oil export receipts therefore translate directly into higher inflows of foreign exchange, which are absorbed into the economy and managed by the monetary authorities to build external reserves. These reserves enhance liquidity in the foreign exchange market, support exchange rate stability, and strengthen the capacity of the Central

Bank of Nigeria to respond to external shocks and currency volatility. In Nigeria's case, external reserves have remained substantial in recent years, at about US\$39.1 billion in a recent reporting period, reflecting the critical role of oil revenues in sustaining reserve accumulation (IMF, 2025). Consequently, elevated oil prices improve foreign exchange inflows, reinforce reserve buffers, and contribute to broader macroeconomic stability.

Negative Effects

Production Constraints

Nigeria cannot fully benefit from high oil prices due to OPEC production limits and domestic operational inefficiencies that constrain output levels. Although higher global prices increase the potential value of crude oil exports, Nigeria's actual earnings are restricted by its relatively low production capacity, which has typically remained between 1.5 and 1.8 million barrels per day, below its estimated capacity of about 2 million barrels per day (Statista, 2023). In addition, adherence to OPEC quotas further limits production, while structural challenges such as oil theft, pipeline vandalism, and militant disruptions continue to suppress output. As a result, Nigeria often produces and exports fewer barrels than its potential capacity, thereby reducing the extent to which it can benefit from price increases. For example, production shortfalls have been estimated to cause revenue losses of about N1.76 trillion (approximately US\$2 billion) over a 12-month period due to inability to meet OPEC production targets (Punch Nigeria, 2026). Consequently, despite favorable price conditions, these constraints weaken Nigeria's ability to fully translate high oil prices into proportional revenue gains.

Quantification

Nigeria reportedly lost approximately ₦1.76 trillion in potential crude oil revenue between January 2025 and January 2026 due to persistent production shortfalls relative to its quota set by the Organization of the Petroleum Exporting Countries, despite relatively favorable global oil prices and cumulative output deficits estimated at over 18 million barrels during the period (Nigerian Upstream Petroleum Regulatory Commission, 2026; Central Bank of Nigeria, 2024; Organization of the Petroleum Exporting Countries, 2025). Within the context of the 2026 United States–Iran conflict, which drove global crude oil prices upward, this unrealized revenue underscores a critical paradox in Nigeria's oil-dependent economy: although higher oil prices typically generate increased fiscal receipts and foreign exchange inflows, Nigeria's inability to meet production targets significantly constrains its capacity to fully benefit from such external shocks (International Energy Agency, 2025; World Bank, 2024). This situation exemplifies the dual economy effect of oil price shocks, where the positive channel rising global oil prices enhances potential government revenue and export earnings, while the negative channel stemming from domestic structural inefficiencies such as production disruptions, oil theft, and inadequate infrastructure reduces actual output,

resulting in substantial revenue losses even during oil booms (Nigeria Extractive Industries Transparency Initiative, 2023; International Monetary Fund, 2024); consequently, the ₦1.76 trillion shortfall represents not only a fiscal loss but also a clear manifestation of the structural disconnect between Nigeria's resource endowment and its realized macroeconomic gains in periods of global energy market volatility.

Domestic Refining Weakness

Despite being a major crude oil producer, Nigeria has historically faced significant limitations in its domestic refining capacity, with state-owned refineries frequently operating far below installed capacity or experiencing persistent operational disruptions. As a result, the country continues to import over 90% of its refined petroleum products, creating a strong dependence on external supply. This structural reliance exposes the economy to fluctuations in global fuel prices and exerts sustained pressure on foreign exchange reserves. Even with the emergence of large-scale private refining initiatives such as the Dangote Refinery, domestic fuel prices have still risen sharply by about 65% in early 2026 largely reflecting global market dynamics rather than purely domestic supply conditions (Reuters, 2026). This indicates that increased local refining capacity has not yet fully insulated the economy from external price shocks, and consequently, while higher global crude oil prices may boost export revenues, the rising cost of imported refined products can offset these gains and ultimately reduce the net welfare benefits to the economy.

Volatility Risk

Oil prices remain highly unstable due to geopolitical tensions, shifts in global demand, and broader macroeconomic conditions. The recent escalation of the United States–Iran conflict has further intensified uncertainty in global oil markets, particularly because of security risks in the Strait of Hormuz a critical chokepoint for a large share of global crude oil trade. Such disruptions tend to trigger sharp and unpredictable price movements, complicating fiscal planning and revenue forecasting for oil-dependent economies such as Nigeria. As a result, oil price volatility contributes to instability in government revenue and budgeting, making effective macroeconomic management increasingly difficult. While temporary price spikes may boost export earnings and foreign reserves, these gains are often short-lived and can quickly reverse, leading to revenue shortfalls, budget imbalances, and potential fiscal adjustments. Nigeria's heavy dependence on oil revenues further amplifies this vulnerability, as external market shocks are rapidly transmitted into domestic fiscal stress. Consequently, despite occasional windfalls, persistent volatility driven by geopolitical shocks underscores the macroeconomic risks of commodity dependence and highlights the need for economic diversification and greater resilience (IEA, 2024; IMF, 2023; World Bank, 2023).

Implications for Exchange Rate (Naira)

The ongoing escalation of the United States–Iran conflict has significant implications for the Nigerian naira, generating both appreciation forces and depreciation pressures through distinct macroeconomic transmission channels. On one hand, the disruption of global oil supply routes, particularly around the Strait of Hormuz, has pushed oil prices above \$100 per barrel, leading to higher export revenues for oil-producing economies like Nigeria. This operates through the external sector by increasing foreign exchange (FX) inflows as oil export earnings are converted into naira, thereby improving the current account balance, strengthening external reserves, and expanding FX liquidity in the domestic market. As a result, monetary authorities gain greater capacity to stabilize the exchange rate, which in the short run can support naira appreciation or at least slow depreciation by easing FX supply constraints (IMF, 2026; World Bank, 2025).

On the other hand, the same geopolitical tensions simultaneously generate depreciation pressures through a second, opposing transmission channel. Heightened global uncertainty increases risk aversion and triggers capital outflows, as investors shift toward safe-haven assets, thereby weakening Nigeria's financial account and reducing FX inflows from portfolio and investment channels. At the same time, Nigeria's structural dependence on imported refined petroleum products, food, and industrial inputs intensifies FX demand pressures, since higher global prices raise import bills and increase the need for foreign currency. This creates an imbalance where FX demand rises faster than FX supply, exerting downward pressure on the naira. In addition, speculative behavior in the foreign exchange market amplifies volatility, as expectations of future depreciation encourage increased demand for foreign currency holdings. Consequently, despite temporary support from elevated oil revenues, the exchange rate remains highly unstable because it is influenced through dual channels: increased FX inflows from oil exports and increased FX demand from imports and capital flight. This interaction ultimately sustains depreciation pressures and exchange rate volatility, highlighting the structural vulnerability of Nigeria to external geopolitical shocks (Reuters, 2026; Al Jazeera, 2026; IMF, 2026).

Implications for Inflation in Nigeria

The recent escalation of geopolitical tensions between the United States and Iran has significantly disrupted global oil supply, particularly through heightened risks around the Strait of Hormuz, a route responsible for a substantial share of global crude oil shipments. This disruption has pushed international oil prices above \$100 per barrel in 2026, creating volatility in global energy markets (International Energy Agency [IEA], 2026). For Nigeria, the impact is profound because, despite being an oil-exporting country, it relies heavily on imported refined petroleum products. Consequently, global oil price increases transmit directly into domestic fuel prices and broader inflationary pressures (Central Bank of Nigeria [CBN], 2026; International Monetary Fund [IMF], 2025).

Cost-Push Inflation

Cost-push inflation in Nigeria has intensified following the surge in global oil prices driven by the U.S.–Iran crisis, which has translated directly into higher domestic petrol prices. Recent reports indicate that petrol prices have risen to between ₦1,350 and ₦1,500 per litre across different parts of the country in 2026 (Punch, 2026; Vanguard, 2026). This increase reflects a combination of higher landing costs of imported petroleum products, exchange rate depreciation, and the deregulated pricing framework in Nigeria's downstream oil sector. The inflationary effect is transmitted through three main channels: transport costs, production energy costs, and imported inflation via exchange rate depreciation.

First, through the transport cost channel, higher petrol prices immediately raise the cost of moving goods and services across the economy, increasing distribution and logistics expenses. Second, through the production energy cost channel, firms that rely on petrol and diesel for power generation face higher operating costs, which are passed on to consumers in the form of higher prices for goods and services. Third, through the imported inflation channel, exchange rate depreciation increases the naira cost of imported inputs, further raising production costs for firms dependent on foreign intermediate goods. As a result of these interconnected channels, cost increases propagate widely across sectors, reinforcing general price level increases. Empirical evidence indicates that energy price shocks have a strong and persistent pass-through effect on inflation in Nigeria, especially under conditions of exchange rate volatility (CBN, 2026; World Bank, 2025). Consequently, the ongoing U.S.–Iran conflict has intensified cost-push inflation by simultaneously increasing energy costs, transportation expenses, and imported input prices, thereby amplifying domestic price pressures.

Transmission Mechanisms

The inflationary impact of rising fuel prices triggered by the U.S.–Iran crisis is transmitted into the Nigerian economy through several key channels:

Transport Costs Increase to Higher Food Prices

Rising petrol prices have significantly increased transportation costs across Nigeria. Since agricultural produce is largely transported by road from rural areas to urban markets, higher fuel costs directly translate into increased food prices. Given that food constitutes over 50% of Nigeria's Consumer Price Index (CPI), this channel exerts strong upward pressure on inflation (National Bureau of Statistics [NBS], 2025). Recent media reports also highlight that rising fuel prices have led to higher transport fares and food costs across major cities (Punch, 2026).

Energy Costs Increase to Higher Production Costs

Businesses in Nigeria rely heavily on self-generated energy due to unreliable electricity supply. With petrol prices rising to about ₦1,350 and ₦1,500 per litre, depending on location, availability, the cost of running generators has increased substantially. This raises production costs across sectors such as manufacturing, agriculture, and services. Firms typically pass these increased costs onto consumers through higher prices, thereby reinforcing inflationary pressures. Reports indicate that businesses are already adjusting prices upward in response to rising fuel costs (Vanguard, 2026).

Imported Inflation to Higher Cost of Imported Goods

The U.S.–Iran crisis has also heightened global financial uncertainty, leading to depreciation pressures on the Nigerian naira. A weaker naira increases the cost of imported goods, including raw materials, machinery, and finished products. Given Nigeria's high import dependence, this results in imported inflation. Empirical studies show that exchange rate pass-through to inflation in Nigeria is significant and positive, especially during periods of global shocks (IMF, 2025; CBN, 2026).

Business and Household Impact

The escalation of the conflict between the United States and Iran has further intensified inflationary pressures in Nigeria, with significant consequences for both households and businesses. The rise in global oil prices has translated into higher domestic petrol prices currently estimated at about ₦1,350 and ₦1,500 per litre thereby worsening the already fragile cost-of-living conditions (Punch, 2026; Vanguard, 2026). These developments have deepened economic hardship and constrained both consumption and production activities within the economy. Firstly, the increase in fuel prices has led to a significant rise in the cost of living. As transportation, food, and energy prices surge, households are forced to spend a larger proportion of their income on basic necessities. This situation is particularly severe in Nigeria, where a large share of household income is already devoted to food consumption. Reports indicate that the rising cost of petrol has directly contributed to higher transport fares and escalating food prices across the country (Punch, 2026). Secondly, there is a reduction in purchasing power. Inflation erodes the real income of households, meaning that consumers can afford fewer goods and services with the same level of income. With wages and salaries not adjusting at the same pace as rising prices, real disposable income declines, leading to reduced consumption and lower overall welfare. Empirical evidence suggests that persistent inflation in Nigeria significantly undermines household purchasing power and increases poverty levels (World Bank, 2025).

Thirdly, the crisis has resulted in a higher cost of doing business, particularly in an economy heavily reliant on self-generated electricity. Due to the inadequacy of public power supply,

many firms depend on petrol and diesel generators for their operations. With fuel prices rising sharply, the cost of energy has increased substantially, thereby raising overall production costs. Businesses respond by increasing the prices of goods and services, cutting down production, or in some cases scaling back operations. Recent reports confirm that many firms are already facing rising operational costs due to increased fuel prices, which is further transmitted into higher consumer prices (Vanguard, 2026).

Macroeconomic Implications of the U.S.–Iran Conflict on Nigeria

The escalation of the United States–Iran conflict has emerged as a significant global economic shock with far-reaching implications for oil-dependent and import-reliant economies such as Nigeria. The conflict has disrupted global energy supply chains particularly through heightened risks around the Strait of Hormuz leading to a surge in crude oil prices above \$100 per barrel, increased financial market uncertainty, and rising global inflationary pressures. For Nigeria, these developments create a dual macroeconomic effect: while higher oil prices boost export revenues and foreign exchange inflows, improving the current account position, the accompanying global uncertainty, capital flow reversals, and rising import costs simultaneously exert pressure on the naira and domestic price levels. Consequently, although the conflict provides short-term fiscal and external sector gains, it also intensifies inflationary pressures and exchange rate instability, highlighting the vulnerability of Nigeria's economy to external shocks (IMF, 2026; World Bank, 2025; IEA, 2026).

Table 1: Transmission of the U.S.–Iran Conflict to Nigeria’s Key Macroeconomic Indicators

Variable	Positive Effect (Conflict-Driven)	Negative Effect (Conflict-Driven)	Net Impact
Oil Sector	Rising global oil prices (above \$100/barrel) due to supply disruptions especially around the Strait of Hormuz increase Nigeria’s oil revenue and foreign exchange inflows.	Heightened price volatility and Nigeria’s structural inefficiencies (e.g., limited refining capacity, oil theft) reduce the ability to fully benefit from the windfall.	Revenue gains exist, but are constrained by structural bottlenecks.
Exchange Rate (Naira)	Higher oil export earnings boost foreign reserves and FX supply, which can temporarily stabilize or support the naira.	Global uncertainty triggers capital flight to safe-haven assets, while higher import bills (fuel, food, machinery) increase FX demand, causing depreciation pressure.	Short-term support from FX inflows, but medium-term depreciation risks dominate.
Inflation	N/A	Increased global oil prices driven by the conflict raise domestic fuel prices (₦1,350 and ₦1,500 /litre), transportation costs, and production expenses. Exchange rate depreciation further fuels imported inflation.	Strong inflationary pressures through cost-push and exchange rate pass-through channels.

Source: Author’s compilation from IMF (2026), World Bank (2025), IEA (2026), CBN (2026), Reuters (2026), Punch (2026), and Vanguard (2026).

Economic Implications of the U.S.–Iran Conflict: Gains and Burdens for Nigeria

The ongoing United States–Iran conflict, which escalated in early 2026, has created a major disruption in global energy markets, particularly through the Strait of Hormuz, a key transit route for a large share of the world’s crude oil. This disruption has pushed crude oil prices above \$100 per barrel and increased volatility in global financial and commodity markets (Reuters, 2026; Al Jazeera, 2026). For Nigeria, the surge in oil prices represents a clear oil-exporting benefit: higher crude prices boost export revenues, increase foreign exchange inflows, strengthen the government’s fiscal capacity, and enhance external reserves. These gains provide the federal government with more resources for budgetary spending, debt servicing, and interventions in the foreign exchange market, potentially stabilizing the naira in the short term (IMF, 2026; World Bank, 2025).

At the same time, Nigeria faces an oil-importing burden due to its reliance on imported refined petroleum products to meet domestic fuel demand. The increase in global fuel prices directly raises domestic petrol costs, transportation and logistics expenses, and production costs for energy-intensive sectors such as manufacturing, agriculture, and services. This contributes to cost-push inflation, reduces households' purchasing power, and increases the overall cost of living (CBN, 2026; NBS, 2025). Consequently, while the oil-exporting benefit improves government revenue and external balances, the oil-importing burden imposes significant hardship on citizens and businesses, illustrating a dual economy effect. Nigeria thus experiences simultaneous fiscal gains and social-economic challenges, highlighting the complex and asymmetric macroeconomic implications of the U.S.–Iran conflict.

Dual Economy Effect of Oil Price Shocks in Nigeria

The dual economy effect explains how global oil price shocks generate simultaneous economic gains and losses in Nigeria. The escalation of tensions between the United States and Iran, particularly around the Strait of Hormuz, has disrupted global oil supply expectations and pushed crude oil prices above \$100 per barrel. For Nigeria, this creates export-side benefits, as higher oil prices increase crude oil revenues, foreign exchange inflows, and external reserves, thereby improving fiscal performance and the balance of payments (OPEC, 2025). However, these gains are significantly offset by domestic economic losses due to Nigeria's heavy dependence on imported refined petroleum products, with about 90–95% of domestic fuel consumption being imported. As a result, higher global oil prices increase Nigeria's fuel import bill, with estimates suggesting that a \$10–\$20 increase in oil prices can raise import costs by about ₦2–4 trillion annually (NUPRC, 2026). This creates a structural divergence in the economy: while the external oil sector benefits from increased export earnings, the domestic economy suffers from rising transportation and production costs, with petrol prices reaching ₦1,350–₦1,500 per litre, triggering cost-push inflation across sectors (Punch, 2026; Vanguard, 2026). At the same time, higher import bills increase demand for foreign exchange, contributing to naira depreciation and further amplifying inflation through exchange rate pass-through effects (CBN, 2024). Consequently, rather than delivering uniform economic gains, the oil price shock produces a dual economy effect in which export revenues are undermined by domestic cost pressures, reinforcing inflationary instability and currency volatility. This outcome demonstrates that Nigeria's oil wealth does not automatically translate into broad-based economic prosperity, but instead reflects structural weaknesses rooted in import dependence and limited domestic refining capacity, making the economy highly vulnerable to external shocks such as the 2026 U.S.–Iran conflict.

Methodology

This study adopts a qualitative descriptive research design to examine the macroeconomic implications of the 2026 United States–Iran conflict on Nigeria, with particular emphasis on

the dual economy effect of oil price shocks. The analysis relies on secondary data obtained from multiple credible institutions, including the International Monetary Fund (IMF), World Bank, Central Bank of Nigeria (CBN), International Energy Agency (IEA), Nigerian Upstream Petroleum Regulatory Commission (NUPRC), Reuters, and Statista, which provide relevant information on crude oil prices, inflation dynamics, exchange rate movements, fiscal performance, and energy market disruptions associated with the geopolitical shock. In addition, policy and sector-specific insights are drawn from the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) (2026) *Annual Oil and Gas Performance and Revenue Outlook Report*, which provides key data on production levels, revenue performance, and Nigeria's crude oil export structure. The analytical procedure is based on descriptive synthesis and comparative macroeconomic analysis, where indicators are extracted and interpreted to assess how the escalation of tensions between the United States and Iran, particularly around the Strait of Hormuz, transmits into global oil price volatility and subsequently affects Nigeria's macroeconomic performance. The study systematically traces transmission channels linking oil price increases to export revenues, fiscal inflows, fuel import costs, inflationary pressures, and exchange rate depreciation, thereby capturing the dual economy structure characterized by simultaneous external gains and domestic losses. Rather than employing econometric estimation techniques, the study adopts a policy-oriented interpretive framework supported by triangulated macroeconomic evidence, enabling a coherent assessment of how the 2026 oil shock reshapes Nigeria's economic stability through the interaction of oil export benefits and import-dependent vulnerabilities.

Policy Implications

To effectively manage the macroeconomic disruptions arising from the United States–Iran conflict, Nigeria must implement both short-term stabilization measures and medium-to-long-term structural reforms. The justification for these policies is grounded in the observed global oil price shock, supply disruptions, and inflationary pressures triggered by the conflict.

Short -term Measure

In the immediate term, policy responses should focus on stabilizing the economy and cushioning households from the sudden shocks of rising global oil prices and their domestic transmission effects.

Social Protection

In the short term, the dual economy effects of the 2026 United States–Iran conflict require strengthened social protection mechanisms to cushion households from rising living costs driven by oil price shocks. As inflation intensifies due to higher fuel and transportation costs, vulnerable populations experience declining real incomes and purchasing power. Empirical evidence shows that oil price shocks in import-dependent developing economies often

translate into welfare losses without effective redistribution mechanisms (World Bank, 2024; IMF, 2025). Therefore, targeted interventions such as conditional cash transfers, transport subsidies, food support programs, and expanded welfare coverage become necessary to reduce immediate welfare losses associated with cost-push inflation and to prevent poverty deepening during macroeconomic instability (World Bank, 2024).

Foreign Exchange (FX) Stabilization

Short-term policy response must prioritize foreign exchange (FX) market stabilization to reduce volatility triggered by increased import demand and external shocks. Although oil price increases raise Nigeria's foreign exchange earnings, they also increase FX demand due to high import dependence, particularly for refined petroleum products, thereby contributing to exchange rate pressure and inflationary pass-through effects (CBN, 2024; IMF, 2025). To address this, monetary authorities such as the Central Bank of Nigeria may adopt exchange rate management reforms, targeted FX interventions, tightening of speculative demand, and improved reserve accumulation strategies. Evidence from the IMF (2025) indicates that commodity-dependent economies experience heightened macroeconomic instability when FX markets are not actively stabilized during external shocks.

Fuel Price Management

Given Nigeria's heavy reliance on imported refined petroleum products, fuel price management becomes a critical short-term stabilization tool. Studies show that global oil price increases are quickly transmitted into domestic fuel prices in import-dependent economies, amplifying inflationary pressures across transportation, food, and production sectors (IEA, 2025; NUPRC, 2026). In Nigeria, petrol prices rising to between ₦1,350 and ₦1,500 per litre illustrate this pass-through effect (Punch, 2026; Vanguard, 2026). In the short term, government may adopt temporary price smoothing mechanisms, strategic petroleum reserve releases, or targeted transport subsidies to reduce sudden price shocks and stabilize domestic price levels. However, energy policy evidence suggests that such interventions should remain temporary to avoid fiscal strain and market distortions (IEA, 2025).

Long-term Measure

In the long term, policy responses should address the structural weaknesses that create Nigeria's dual economy effect and sustained vulnerability to oil price shocks.

Refining Capacity Expansion

In the long term, addressing the structural roots of the dual economy effect requires significant investment in domestic refining capacity. Nigeria's heavy dependence on

imported refined petroleum products exposes the economy to global oil price shocks and exchange rate volatility, thereby weakening the transmission of export gains into domestic welfare improvements. Expanding local refining capacity would reduce import dependence, stabilize domestic fuel supply, and improve energy security. Evidence from energy policy studies shows that countries with integrated refining systems are better able to insulate their domestic economies from external oil price shocks and inflationary pressures (IEA, 2025; World Bank, 2024). In the Nigerian context, strengthening operational efficiency of existing refineries and supporting private sector refineries can reduce the persistent mismatch between crude oil exports and refined product imports (NUPRC, 2026).

Economic Diversification

A key long-term response is economic diversification away from oil dependency toward productive non-oil sectors such as agriculture, manufacturing, digital services, and solid minerals. The dual economy effect persists largely because oil dominates export earnings while other sectors remain structurally weak and import-dependent. Empirical macroeconomic evidence indicates that economies heavily reliant on a single commodity are more vulnerable to external price shocks and experience greater output and fiscal volatility (IMF, 2025; World Bank, 2024). Diversification reduces this vulnerability by broadening the production base, strengthening domestic value chains, and improving employment generation. In Nigeria, enhanced investment in agro-industrial processing and manufacturing export capacity can reduce reliance on oil revenues and improve macroeconomic resilience.

Renewable Energy Investment

Long-term macroeconomic stability also requires increased investment in renewable energy infrastructure to reduce dependence on imported fossil fuel inputs and improve energy security. Global energy transition trends show that countries investing in solar, wind, and hybrid energy systems experience lower exposure to global oil price volatility and reduced import-related inflation pressures (IEA, 2025). For Nigeria, renewable energy development can complement domestic energy supply, reduce pressure on foreign exchange demand for fuel imports, and support sustainable industrial growth. Studies by international energy agencies further indicate that renewable energy adoption strengthens long-term price stability and reduces vulnerability to geopolitical oil shocks such as the 2026 United States–Iran conflict (IEA, 2025).

Conclusion and Recommendations

The escalation of the United States–Iran conflict constitutes a significant external shock with wide-ranging macroeconomic implications for Nigeria. The disruption of global oil supply routes, particularly around the Strait of Hormuz, has pushed crude oil prices above \$100 per

barrel and increased volatility in global financial markets. For Nigeria, this development presents a clear opportunity through higher oil export revenues, improved fiscal balances, and increased foreign exchange inflows. These gains enhance government revenue and external reserves, providing short-term fiscal space and the potential to stabilize the exchange rate (IMF, 2026; World Bank, 2025; IEA, 2026). However, the benefits derived from higher oil prices are offset by significant macroeconomic challenges. Nigeria's heavy reliance on imported refined petroleum products means that rising global oil prices translate directly into higher domestic fuel costs, increased transportation and production expenses, and heightened cost-push inflation. In addition, global uncertainty associated with the conflict contributes to exchange rate volatility through capital flow reversals and increased demand for foreign exchange, thereby amplifying imported inflation (CBN, 2026; IMF, 2026). Consequently, the overall impact of the conflict is dual and asymmetric: while it strengthens government revenue and external balances, it simultaneously fuels inflation, exchange rate instability, and economic hardship for households and businesses. The conflict therefore produces both fiscal gains and macroeconomic instability, reflecting a deeply uneven transmission of external shocks within the Nigerian economy. The magnitude of the adverse effects is largely driven not by the oil shock itself, but by Nigeria's structural dependence on imported refined petroleum products. This underscores the need for prudent macroeconomic management to transform short-term oil windfalls into sustainable economic gains while mitigating the adverse welfare effects on the domestic economy. In light of the macroeconomic disruptions associated with the United States–Iran conflict, Nigeria should adopt the following three recommendations:

- i. Implement targeted stabilization measures by providing temporary social protection (such as transport support and cash transfers) and strengthening exchange rate management to cushion the immediate effects of rising fuel prices, inflation, and currency volatility.
- ii. Expand and modernize domestic refining capacity to reduce dependence on imported petroleum products and limit the transmission of global oil price shocks into the domestic economy.
- iii. Promote economic and energy diversification by investing in non-oil sectors and alternative energy sources such as gas and renewables to enhance resilience, reduce vulnerability to external shocks, and ensure sustainable long-term growth.

Statements and Declarations

The authors declare that this study was conducted independently without external funding or support, and no conflicts of interest, financial or otherwise, exist.

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